

FEDERAL RESERVE SYSTEM**Sunshine Act Meeting****AGENCY HOLDING THE MEETING:**

Committee on Employee Benefits of the Federal Reserve System.¹

TIME AND DATE: 2:30 p.m., Wednesday, July 1, 1998.

PLACE: Marriner S. Eccles Federal Reserve Board Building, 20th and C Streets, NW., Washington, D.C. 20551.

STATUS: Closed.

MATTERS TO BE CONSIDERED:

1. Proposals relating to Federal Reserve System benefits.
2. Issues relating to potential litigation.
3. Any items carried forward from a previously announced meeting.

CONTACT PERSON FOR MORE INFORMATION:

Lynn S. Fox, Assistant to the Board; 202-452-3204.

SUPPLEMENTARY INFORMATION: You may contact the Board's Web site at <http://www.bog.frb.fed.us> for an electronic announcement of this meeting. (The Web site also includes procedural and other information about the meeting.)

Dated: June 24, 1998.

Robert deV. Frierson,

Associate Secretary of the Board.

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FEDERAL RESERVE SYSTEM

[Docket No. R-0987]

Policy Statement on Privately Operated Multilateral Settlement Systems

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Policy statement.

SUMMARY: As part of its payment system risk reduction program, the Board of Governors is adopting a policy statement on Privately Operated Multilateral Settlement Systems, which integrates its existing policies on Privately Operated Large-Dollar Multilateral Netting Systems and Private Small-Dollar Clearing and Settlement Systems into one comprehensive policy.

EFFECTIVE DATE: January 4, 1999.

FOR FURTHER INFORMATION CONTACT:

Jeffrey C. Marquardt, Assistant Director (202/452-2360) or Paul Bettge, Assistant Director (202/452-3174); Oliver Ireland, Associate General Counsel (202/452-3625); for the hearing impaired only,

Telecommunications Device for the Deaf, Diane Jenkins (202/452-3544).

SUPPLEMENTARY INFORMATION:**I. The Proposed Policy Statement**

In November, 1997, the Board issued for public comment a proposal to adopt a policy statement on Privately Operated Multilateral Settlement Systems (62 FR 60713, Nov. 12, 1997). The proposed policy statement was designed to integrate several of the Board's existing policies on payment system risk into a more comprehensive and consistent framework. The proposed policy statement addressed risks in multilateral settlement arrangements for both "small-dollar" payments, such as clearinghouses for checks and automated clearing house (ACH) payments and systems for settlement of "large-dollar" payments, which are typically used for interbank and financial market transactions. The proposal was intended to provide a flexible, risk-based approach to risk management in these systems and not mandate uniform, rigid requirements for all systems.

The proposed policy statement identified fundamental categories of risk, including credit, liquidity, operational, legal, and systemic risk, that may arise in different types of multilateral settlement arrangements. Systems would be expected to address any material risks in each category. For each type of risk, the policy statement included first, a discussion of risk factors designed to identify those multilateral settlement systems where risks may be heightened relative to other means of settlement. Second, threshold criteria were intended to identify more clearly systems in which these risk factors were not likely to arise. These criteria were intended to simplify administration of the policy and reduce potential regulatory burden on systems where the Board's analysis suggests that risks may be minimal. (An Appendix published with the proposed policy statement also provided examples of the likely application of the policy statement to specific types of systems.) Third, the proposed policy statement provided illustrations of the types of risk management measures that may be appropriate given the particular risk factors identified. Particularly for multilateral settlement systems that are not likely to raise systemic risk concerns, these illustrations were intended to provide flexible guidance rather than an exhaustive or prescriptive set of requirements, such that systems would be encouraged to implement risk

management measures commensurate with the scale and scope of risks.

For multilateral settlement systems that were considered sufficiently large to raise potential systemic risk concerns, the proposed policy statement would have imposed higher risk management standards. Those larger systems that met proposed systemic risk criteria would have been expected to demonstrate robust policies and procedures for addressing settlement failures and disruptions. Certain of those larger multilateral settlement systems would also have been required to meet the same requirements of the Board's existing policy statement on Privately Operated Large-Dollar Multilateral Netting Systems (Large-Dollar Policy Statement), including meeting the Lamfalussy Minimum Standards.¹

The Board also proposed to repeal its existing risk policies for certain "small-dollar" payments clearing and settlement arrangements. The earlier policies were designed to address specific situations that arose in the Federal Reserve's provision of net settlement services to depository institutions. The proposed policy statement would eliminate the need for such policies.

II. The Final Policy Statement

The Board is adopting a final policy statement that retains the structure and analytical approach of the original proposal. The policy statement replaces two existing components of the Board's Policy Statement on Payments System Risk, namely those for "Privately Operated Large-Dollar Multilateral Netting Systems" and "Private Small-Dollar Clearing and Settlement Systems," which are being repealed concurrently with the effective date of this policy statement. As in the proposal, multilateral settlement systems subject to the policy would be required to address risk factors using a set of basic analytical risk categories. The final policy statement reflects important modifications to the original proposal designed to improve the clarity and effectiveness of the policy and to address concerns identified by commenters.

Scope and Administration of the Policy

The final policy statement includes a general threshold for application of the policy in order to eliminate potential administrative burden on those smaller

¹ Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten Countries (Bank for International Settlements, November 1990) presented a set of minimum standards for netting schemes (Lamfalussy Minimum Standards).

¹ The Committee on Employee Benefits considers matters relating to the Retirement, Thrift, Long-Term Disability Income, and Insurance Plans for employees of the Federal Reserve System.